Franchise Tax Board
FY 2003/04 Budget Development
Summary of Budget Change Proposals

BCP #	BCP ISSUE	2003/04 COST ESTIMATE (in thousands)	PYs	SUMMARY
1	**Phase III Building - Move In/ Occupancy Costs**	$0	0.0	This proposal is for an expenditure of $5.0 million to install modular furniture to enable the department to make the initial relocation of staff to the new Phase III office complex. FTB proposes to fund this need of $5.0 million from savings provided by BCP #2 - INC. The proposal is for the department to enter into service contracts to clean, disassemble and reassemble, and move the existing modular furniture to the new facilities. It will also provide for the purchases of equipment for the warehouse, parking lot sweeper and articulating platform for the parking lot, and funding for the increase in OE&E costs to support and maintain the new Phase III facilities.
2	**Integrated Nonfiler Compliance (INC)**	-$6,792	0.0	The INC Project will be completed during FY 2002/03. This BCP reduces the project budget by $11.8 million for one-time project costs. This reduction is consistent with the SPR approved in February 2002. The INC Project identifies taxpayers who have not filed their tax return but have a filing requirement. The INC system produces $80 million annually in General Fund revenue. Of the total $11.8 million reduction, $5.0 million will be redirected to BCP #1 - Phase III, for a net reduction of $6.8 million.
3	**Global Network Infrastructure**	$0	0.0	The proposal addresses the need to make security improvements in the department's network infrastructure. It proposes an expenditure of $484,000 in FY 2002/03 and $330,000 in FY 2003/04 for the purchase and installation of dual-authored firewalls to protect the confidentiality and privacy of taxpayer and business partner's data. The funding for this proposal will be redirected from the existing Data Processing allotment. The new security infrastructure is necessary for FTB to comply with the Statewide Information Management Manual (SIMM) and will also provide features that protect the integrity of the data from unauthorized access and malicious attacks.
4	**Sustained Legal Workloads**	$564	5.0	The funding request is to permanently establish five limited term positions expiring on July 1, 2003. Four positions were provided to meet legislative direction and the requirements of FTB 99-01 that requires completion of complex docketed protest cases within 33 months (from the previous 51 months). One position was established to provide required technical support to the Legal Branch. Funding for the positions must continue in order to avoid delay of up to $53.8 million in revenue and to continue closing protest cases within the 33 month target timeframe.
5	**Investigations - Underground Economy Pilot**	$521	5.7	The funding request is to permanently establish six limited term positions expiring on July 1, 2003. The positions were provided to pursue a pilot program targeting cash pay/underground economy cases. Continuing the pilot program with these six positions will generate $5.7 million annually beginning in FY 2004/05. Once additional actual data is captured, the program will be evaluated for potential expansion.
6	**Child Support Replacement Project (CSRP)**	-$1,108	0.0	The CSRP will be completed in FY 2002/03. This BCP is requesting a reduction of $2 million General Fund and augmentation of $0.9 million Federal reimbursements to adjust CSRP resources to its ongoing baseline level in accordance with the approved FSR. The project allowed the department to move existing child support system functionality to a new platform with increased capacity.

Franchise Tax Board
FY 2003/04 Budget Development
Summary of Budget Change Proposals

BCP #	BCP ISSUE	2003/04 COST ESTIMATE (in thousands)	PYs	SUMMARY
	Placeholder BCPs			
1	**CA Child Support Automation System (CCSAS)**	TBD		This is a “placeholder” BCP for the anticipated need for additional funding and position authority to begin the development and implementation phase of the statewide CCSAS project. The CCSAS Project is currently in contract negotiations with the qualified business partner (QBP) and expects to conclude this process in October 2002. The amount of funding and position authority needed will not be determined until final negotiations are concluded with the QBP.
2	**Court Ordered Debt Program (COD)**	TBD		This is a “placeholder” BCP for the anticipated need for additional funding and position authority to expand the COD program. COD is a pilot program due to sunset on January 1, 2003. Upon the expected passage of pending legislation that will remove or delay the sunset provision, FTB anticipates that the COD program will grow as additional county clients are waiting approval to participate in the program.
3	**FTB Butterfield Campus Renovations**	TBD		This is a "placeholder" Capital Outlay BCP for renovations required in Buildings 1 and 2 in order to accommodate the expanded Butterfield Campus.

Franchise Tax Board
FY 2003/04 Budget Development
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Franchise Tax Board
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STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2003/04
DF-46 (REV 03/00)

Department of F
915 L Street
Sacramento, CA
IMS Mail Code:

BCP # 1	**DATE 08/26/02**	**Title of Proposed Change: Phase III - Occupancy Costs COMPONENT**
PROGRAM All Programs	**ELEMENT** All Programs	

	Personnel Years CY	Personnel Years BY	Current Year
Total Salaries & Wages a/	.0	.0	$ 0
Salary Savings	.0	.0	$ 0
Net Total Salaries and Wages	.0	.0	$ 0
Staff Benefits b/			$ 0
Total Personal Services			$ 0

Operating Expenses and Equipment	
General Expenses	$ 0
Printing	0
Communications	0
Postage	0
Travel-In-State	0
Travel Out-of-State	0
Training	0
Facilities Operations /1	0
Utilities	0
Cons & Prof Svs - Interdept'l /2	0
Cons & Prof Svs - External /3	0
Consolidated Data Center	0
California Health and Human Services Agency Data Center	( )
Stephen P. Teale Data Center	( )
Data Processing	0
Equipment	0
Redirect from the INC Project BCP	0
Total Operating Expense & Equipment	$ 0

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 Includes one-time purchases of Town Center furniture ($251K); other equipment($282K) and miscellaneous warehouse/facilities expenses ($62K).
/2 To reimburse salaries for Department of General Services staff for the operations and maintenance of the new Phase III facilities.
/3 Includes $693K for a moving contract and $3.6 million for a service contract to disassemble, clean and reassemble modular furniture.

inance

95814
A-15

Budget Year
$ 0
$ 0
$ 0
$ 0
$ 0

$ 0
0
0
0
0
0
0
595,000
0
120,000
4,293,000
0
( )
( )
0
0
-5,008,000
$ 0

	Current Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0
SPECIAL ITEMS OF EXPENSE d/	
________________________	$ 0
________________________	
PROGRAM ADMINISTRATION	$ 0
Distributed Admin	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0

Source of Funds	**Appropriation No.** Org - Ref - Fund	
General Fund	1730 001 0001	$ 0
		0
		0
		0
		0
		0
		0
Reimbursements	1730 501 0995	0
Totals		$ 0

LOCAL ASSISTANCE		$(0)
Source of Funds	**Appropriation No.** Org - Ref - Fund	
General Fund	1730 001 0001	$ 0
		0
		0
		0
		0
Reimbursements		0
Totals		$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

Budget Year
$ 0
$ 0
$ 0
$ 0
$ 0
$ 0
0
0
0
0
0
0
0
$ 0
$(0)
$ 0
0
0
0
0
0
$ 0

FRANCHISE TAX BOARD
Fiscal Year 2003/04

Budget Change Proposal **BCP No. 1**

Phase III - Occupancy Costs **Date: August 26, 2002**

A. Nature of Request

The Franchise Tax Board (FTB) will be the major tenant of the State Office and Warehouse Facilities at Butterfield Way (State Office Project, also known as Phase III). Following construction of the State Office Project, FTB will relocate staff and operation from approximately 508,000 square feet of leased facilities currently located within the Highway 50 corridor to the expanded Butterfield campus. This relocation has department-wide implications in that all segments of the organization will be affected by the multi-phased occupancy of the State Office Project as FTB staff is consolidated at the expanded Butterfield campus.

FTB requests funding of $5,008,000 for the following areas associated with the move and occupancy of the new Phase III project:

- $4,888,000 - services contracts to disassemble, clean and reassemble existing furniture, and equipment and services for the new warehouse and parking lot areas.
- $120,000 - maintenance and operating costs.

Phase III will also require voice and data infrastructure and additional new modular furniture to complete the initial moves to the new buildings. The costs for the infrastructure and the modular furniture are not included in this request because these items are being considered for the possible use of construction bids savings from the State Office Project. However, if bid savings are not approved for these items, FTB will be requesting additional OE&E for the infrastructure and the modular furniture. A Feasibility Study Report for the voice and data infrastructure was submitted to the Department of Finance in July 2002.

B. Background/History

The Phase III project is based on Senate Bill 1589 (Chapter 328/1998) authorizing the Department of General Services to use lease revenue funds for the acquisition of land, design, and construction of the State Office Project. The consolidation strategies expressed in FTB's 1995 Master Plan Report and confirmed in the subsequent 1998 Update supported the authorizing legislation. The consolidation of FTB staff currently housed in leased space at the expanded Butterfield campus is consistent with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements, and will result in FTB operating efficiencies.

The State Office Project includes construction of a central plant, warehouse, Town Center and office buildings. The maintenance and operation of those facilities will be the responsibility of the Department of General Services, Building and Property Management Branch (BPMB), and those maintenance and operating costs will be paid by FTB.

Services and equipment required for FTB occupancy will impact FTB's support budget in multiple years. The following services and equipment required by FTB are not funded by the State Office Project, and are the subject of this FTB funding request:

1. **Modular System Furniture - $3.6 million; Multi-Year Contract for Modular System Furniture Disassembly/Reassembly/Cleaning Contract.**

   Consolidation of FTB operations at the expanded Butterfield campus by the relocation of staff occupying approximately 508,000 square feet of leased space will be accomplished in multiple stages within the constraints of the State Office Project construction schedule. Consistent with the Department of Finance recommendations and sustainable building practices, FTB is planning to re-use its existing modular system furniture (modular). In comparison with the purchase of new modular at an estimated cost of $15.6 million, the re-use costs are estimated to be $13.8 million, representing a savings of $1.8 million.

   Integral to the re-use process is the procurement of a multi-year contract for the professional services of a vendor to disassemble, reassemble and clean the modular in a timely manner. FTB does not have staff that is trained or authorized to accomplish these tasks. Because the components vacated may not meet the requirements for the immediately subsequent occupancy stage, the purchase of new modular components to augment inventory is necessary in order to complete the modular installations. The total cost of disassembling, reassembling, cleaning, and new components is estimated to be $3.6 million in FY 2003/04, and is estimated at $7.8 million in FY 2004/05.

   Denial of this proposal will prohibit re-use of FTB's existing modular inventory, require purchase of new modular at an estimated cost of $15.6 million, and conflict with sustainable building design practices. Delays in modular installation may obligate FTB to incur double rental costs for State Office Project space that is available for occupancy together with the estimated $650,000 rental of leased space, and generate delay costs to the State Office Project estimated at $500,000 per month.

2. **Multi-Year Move Contract - $693,000**

   FTB staff currently located in approximately 508,000 sq. ft of leased space as well as staff at Central Office will be moved in multiple stages. The State Office Project does not fund the relocation of FTB staff, and FTB does not have vehicles, personnel or equipment to move the large quantity of staff related to occupancy of the new facility. A multi-year contract for the services of a professional moving company is required. The cost of those services is estimated at $693,000 in FY

2003/04, and $588,000 in FY 2004/05. The inability to meet multiple phased occupancy milestones will generate increased FTB support costs associated with double rents since the State Office Project will be available for occupancy, and FTB will be unable to relocate from leased space in a timely manner. The lease costs vary per site with an estimated total monthly cost of $650,000 in FY 2003/04. The State Office Project may also incur project delay costs estimated at $500,000 per month.

3. Facilities related Costs - $595,000

a. One-Time Purchase of Furniture for Town Center - $271,000

The Town Center constructed by the State Office Project is comprised of a cafeteria, credit union, childcare center, auditorium, training rooms, and conference rooms. It is situated outside the secure perimeter to facilitate possible use by the community and the college district. Although the Project will provide audiovisual equipment in the conference and training rooms as well as some furnishings and equipment in the childcare center, the conference/training room furniture and childcare center cribs are not included. FTB requests one-time funding in the amount of $271,000 for the purchase of the conference and training room furniture and cribs.

The Town Center conference and training rooms have been specifically programmed to meet FTB training requirements, and will be utilized by FTB during the daytime hours, and possibly by the community college district in the evenings. The inability to use the Town Center conference and training rooms combined with the disruption of Building 1 training rooms during relocation of staff and subsequent renovation of Building 1 will detrimentally impact the training of FTB staff. If this request for $251,000 funding is denied, FTB will incur rental costs for inadequately equipped training and conference rooms that will not meet their programmed use.

During the schematic design phase, research revealed that infant care was lacking in the area and failure to provide this service at the existing childcare facilities at the Butterfield site negatively affected enrollment. The demand for infant care prompted the inclusion of that component in the design of space for 36 infants in the State Office Project childcare center. Typically the childcare center is a turnkey operation. Failure to provide the cribs may place the infant care at risk, and affect the rental income to the State since it is anticipated that the vendor will request a rental adjustment for the one-time cost of the cribs estimated at $20,000.

b. Bicycle Locker Purchase - $55,000

The FTB 1995 and 1998 Master Plan Update Reports recognized that the expansion of the Butterfield facility provided an opportunity to promote the use of alternate modes of transportation. These reports also acknowledged that every effort must be made to achieve a 33%-40% alternative mode use in order to reduce the land required for parking. The transportation mode split goals in these reports were the basis for determining the number of parking spaces needed at the State Office Project, and the requirements for the on-site and off-site transportation infrastructure. Those goals reflected an increase in the walk/bicycle mode from 1.5% to 3%.

The State Office Project is in direct proximity to the RT Butterfield Light Rail Station, with a new bicycle path to that station, shower and locker rooms in the Town Center and first floors of the office buildings, and designated areas on the site for bicycle locker placement. These attributes enhance FTB's efforts to increase the use of bicycles for transportation. Accessibility to bicycle lockers near entrances to the site will further promote bicycling as an alternative to driving alone. Since the State Office Project does not include funding for the purchase of bicycle lockers, FTB requests $55,000 in FY 2003/04 for the purchase of 100 bicycle lockers. It is estimated that $55,000 will be required in FY 2004/05 for an additional 100 lockers.

If the alternative transportation goals are not reached, there will be an increase in traffic congestion and air pollution, a greater demand on the roadway infrastructure, and a likelihood that FTB staff will park in adjacent residential and commercial areas due to insufficient on-site parking. This will be detrimental to community relations, and may affect the ability of the State of California to site other projects in Sacramento County.

c. Audiovisual Equipment - $57,000

FTB will be the primary occupant of the office buildings constructed by the State Office Project. Nine (9) PC training rooms and seven (7) conference rooms are strategically located at the connectors between the new office buildings to address the training needs of FTB's collection, audit and filing services programs. The State Office Project construction includes the infrastructure for projectors in these rooms, but acquisition and installation of projectors is not provided. The training of new staff as well as updating staff on new systems and procedures in a lecture or PC environment is critical to administering the tax laws of the State of California. FTB is responsible for 64% of the state revenue. Delivery of efficient business results and implementation of electronic government services is dependent upon a skilled work force. Failure to provide the training equipment may affect the ability of FTB staff to optimally perform their jobs. FTB requests $57,000 to purchase and install projectors in the buildings it will occupy in FY 2003/04. The cost to purchase and install projectors in buildings to be occupied in FY 2004/05 is estimated at $45,000.

d. Warehouse Equipment and Services - $62,000

The new warehouse constructed by the State Office Project is programmed for FTB's supply and freight/special mail handling operations including docks, office space for staff, an equipment room, and a shop for equipment repairs. The remainder is designed as open warehouse space to provide flexibility. FTB will initially utilize this space for storage and staging of modular, and ultimately will relocate its bulk storage from the existing leased warehouse. Funding is requested for warehouse pallet racks, construction of two separate secure areas for the supply room and bulk delivery storage, and the services of a professional moving company.

FTB's supply room is currently located in a hard wall space at Central Office Building 1. The freight/special mail handling area is also in Building 1 surrounded by chain link fencing to securely store the expensive information technology equipment. These areas are programmed for renovation to relieve compaction issues and meet mailroom equipment needs. By moving these operations to the new warehouse, the freight and special handled mail will be in a contained environment separate from the office buildings, operational efficiencies will be realized, Central Office dock traffic will be reduced, and renovation programming can proceed. Without relocation of existing supply room metal shelving and construction of fenced areas for the freight receipt and supply functions, the state's investment in technological equipment cannot be secured, and the supply functions will not be conducted efficiently.

The modular staging in the new warehouse entails storage of large quantities of modular components upon disassembly as it is prepared for subsequent installations at the adjacent State Office Project buildings. FTB cannot accommodate the modular inventory at its Central Office or leased warehouse space. Consequently, the storage of modular inventory in pallet racks at the new warehouse is critical to its re-use. Pallet racks will allow for the optimum use of floor space and protection of the components. If these racks are not available, FTB will incur additional transportation costs for moving the modular from Central Office and leased facilities to interim locations prior to reassembly at the State Office Project site. FTB will incur $19,000 per month in estimated modular storage costs, and unforeseen costs for replacement of components damaged by inappropriate storage. Moreover, delays in occupancy occasioned by the loss of direct adjacency of the modular to its ultimate location will compel FTB to continue leasing office space at an estimated cost of $650,000 per month in FY 2003/04.

e. Parking Lot Sweeper, and Articulating Platform - $150,000

The State Office Project 3-story and 4-story office buildings surround a courtyard accessible for service and maintenance through 10' wide x 10' high doors. The new parking lots constructed during the site work will result in 35 acres of parking with the addition of 264 parking light standards 25' in height, and the replacement of existing light standards with these taller models. The Central Plant will include the heating, cooling and electrical systems for existing FTB Central Office, and the new State Office Project facilities.

FTB requests funding to purchase a parking lot sweeper and articulating platform to insure that the facility is properly maintained. Historically, the Building and Property Management Bureau of the Department of General Services (BPMB) has maintained this facility. That maintenance is contingent upon the availability of equipment in the BPMB equipment pool. A parking lot sweeper to clean the extensive parking lots is not available to conduct that task on a weekly basis.

The equipment pool does not include an articulating platform capable of entering the service corridors between the office buildings and reaching the 4-story building or entering the Central Plant and safely accessing the extensive mechanical and electrical equipment. Without the articulating lift, the office building and warehouse windows cannot be washed, repaired or maintained; Central Plant mechanical and electrical problems cannot be safely and quickly addressed; and, the parking lot lighting cannot be repaired or replaced. It is estimated that delivery of an articulating lift will cost $3,000 for delivery charges, create a one-day delay in response since none is available in the Western U.S., and rental costs are estimated at $5,000 per month.

If this request is denied, the maintenance of the facility cannot be assured since the BPMB equipment is unsuitable, and reliance on contract services will generate increased operating costs and delays in recurring maintenance and repairs. This will result in increased liability and costs for employee worker's compensation claims, personal injury litigation related to visitor injuries, and Board of Control claims for property damage. More importantly, the maintenance deficiencies will jeopardize the investment of State funds in this facility.

4. Operating and Maintenance Costs - $120,000

The current 851,000 gross square foot Butterfield office and warehouse facility will expand to approximately 1,851,000 gross square feet upon completion of the State Office Project. FTB received funding in FY 2002/03 for increased maintenance and operating costs related to the addition of three Building and Property Management Branch (BPMB) staff associated with the central plant and landscaping/irrigation systems for the newly constructed parking lots. As building systems are commissioned and facilities are occupied, additional staffing will be required to provide the support and maintenance appropriate for the expanded campus. In this regard, DGS has prepared a staffing plan for the 2003/04 and 2004/05 fiscal years. DGS has requested the following additional BPMB positions in FY 2003/04 to implement the hiring, business, management, and transition plans: one Building Manager III effective January 2004 ($61,770), one Office Technician effective January 2004 ($29,406), and one Chief Engineer I effective April 2004 ($28,558). That request is consistent with the state policy on staffing new state office buildings, and is critical to hiring and training staff in order to maintain service levels. FTB will be unable to cover the increased costs without redirecting from other areas, and therefore requests an augmentation of $120,000 for fiscal year 2003/04 related to the additional BPMB staff.

C. State Level Consideration:

In accordance with Executive Order D-16-00 the goal of the State Office Project is to construct, renovate, operate and maintain facilities that are models of energy, water and materials efficiency while providing a healthy, productive indoor and outdoor environment for staff. This Project will be a long-term benefit to the State of California. FTB will be the primary occupant, and is responsible for 64% of the state revenues.

Appropriate facilities and training is key to the delivery of seamless customer centric service that has been the hallmark of FTB. This is a request for a short-term investment in services and equipment to encourage alternative modes of transportation, recycle modular furniture, relocate staff in a timely manner, reduce leasing costs, adequately maintain and efficiently utilize the programmed facilities. This investment will garner the long-term benefits of enhanced community relations, delivery of efficient state services, protection of investment of state funds, reduction of rental costs, and avoidance of project delay costs. To continue leasing space to meet FTB program needs conflicts with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements

D. Facility/Capital Outlay Considerations:

FTB's inability to consolidate to the Butterfield site pursuant to the State Office Project schedule will result in additional leasing costs of $650,000 per month and delay costs to the State Office Project of approximately $500,000 per month. The State Office Building Economic Analysis dated October 31, 2000 prepared by DGS Asset Planning and Enhancement Branch indicated that the annual savings related to development of the Butterfield site through the State Office Project in comparison to the continued leasing of space for FTB would be realized in years four through six – in both future and present value dollars.

Failure to appropriately staff the operating and maintenance functions at the expanded campus will result in increased deferred maintenance costs and a failure to optimally utilize the infrastructure established by the State Office Project capital outlay investment.

E. Justification:

The consolidation of FTB staff with the State Office Project supports FTB's 1995 and 1998 Master Plan Update, and will allow for improved communications and efficiencies for FTB pursuant to FTB Strategic Goal #3 to build a strong organization. Strategic Goal #4 to deliver efficient business results and implement electronic government services is dependent on a skilled work force. At the forefront of FTB's employee development is providing staff with skills to successfully perform their job. Providing the furniture and equipment to meet the training needs of FTB collection, audit and filing services programs is integral to the administration California's tax laws. Further, this funding request supports Strategy #5 to allocate resources based on the overall long-term benefits to our customers, our organization, and California as a whole. The re-use of modular furniture is a recognized sustainable building practice diverting waste from landfills and utilizing recycled material while reducing costs by approximately $1.8 million. By facilitating the use of bicycle transportation through the purchase and installation of bicycle lockers, California will benefit from reduced traffic congestion. Relocation of staff within the constraints of the State Office Project schedule eliminates project delay costs estimated at $500,000 per month, FTB's leasing costs estimated at $650,000 per month, and impacts to the department's ability to provide the current level of service. Appropriately operating and maintaining the facility will reduce long-term costs associated with deferred maintenance.

F. Analysis of All Feasible Alternatives

Alternative #1 – Approve $5 million to allow FTB to re-use existing modular inventory, and procure services and equipment for efficient occupancy and appropriate maintenance of the State Office Project. To fund this alternative, FTB proposes to redirect $5 million in one-time savings for the INC project (see BCP #2).

This alternative recommends the requisite funding for efficient re-use of existing modular, timely relocation of staff, effective utilization and appropriate operation and maintenance of the facilities of the expanded Butterfield site. This will allow the department to cover the costs associated with its occupancy of the State Office Project, and provide the current level of service.

Alternative #2 – Provide $4.71 million funding to finance this alternative. This alternative assumes that State Office Project bid savings will not be used, and utilizes financing option over a four-year term. FTB proposes to redirect $4.71 million from the INC project BCP to fund this alternative.

Under this alternative, the following is being proposed:

- $107,500 to allow for financing of the following items over a 4-year term.
    a) furniture for Town Center ($251,000);
    b) parking lot sweeper and articulating lift ($150,000).

- $4.6 million to purchase and fund the following items.
    a) operating and maintenance costs ($120,000);
    b) disassemble/reassemble/clean/augmentation of modular ($3.6 million);
    c) move contract ($693,000);
    d) warehouse equipment/services ($62,000);
    e) audiovisual equipment, bicycle lockers, childcare center cribs ($132,000).

G. Timetable

Increase support funding effective July 1, 2003.

H. Recommendation

Alternative #1 is recommended at this time. This enables the department to relocate in a timely manner and operate efficiently without impacting its ability to provide the current level of service. There is no net increase to the FTB budget, as Phase III occupancy costs will be offset by an equal reduction in one-time cost for the INC project. Funding for this alternative will be redirected from the INC project.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2003/04
DF-46 (REV 00/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
2		1730	**Franchise Tax Board**
PROGRAM 10 Tax Programs	ELEMENT	COMPONENT	

TITLE OF PROPOSED CHANGE:

Integrated Non-Filer Compliance (INC)

SUMMARY OF PROPOSED CHANGE:

Adjust funding by -$11.8 million to reduce the one-time costs for Integrated Non-Filer Compliance Project and redirect $5.008 milllion of the savings towards BCP #1- Phase III .

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☐ ONE-TIME COST ☐ FUTURE SAVINGS ☐ FULL-YEAR COSTS ☐ REVENUE ☐ FACILITIES/CAPITAL COSTS

PREPARED BY:	DATE	REVIEWED BY:	DATE:
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE:

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT .

DATE PROJECT # FSR ☐ OR SPR ☒

DOF ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

FRANCHISE TAX BOARD
2003/2004

Budget Change Proposal	**BCP No.:**	**2**
Integrated Non-Filer Compliance (INC)	**Date:**	**August 26, 2002**

A. Nature of Request:

The INC Project identifies taxpayers who have not filed their tax return and will generate $313.5 million additional cash revenue over the life of the project ($80 million annually beginning in FY 2002/03). Since the INC Project will be completed during this fiscal year, this BCP is a request for a negative adjustment of $11.8 million to reduce INC spending to its ongoing baseline level. This reduction is supported by the SPR approved in February 2002.

This BCP also requests to redirect $5.008 million of the savings towards BCP #1 - Phase III to accommodate the occupancy of the expanded Butterfield Office Complex. As a result, the net adjustment is a reduction of $6.792 million. The Department is proposing this redirection in response to Budget Letter 02-20, which requires that costs for ongoing increases be offset by savings in other areas.

B. Background/History:

To administer the Revenue and Taxation Code, the Franchise Tax Board (FTB) has established several business programs, one of which is the Nonfiler Program. Through this program, FTB identifies and gains compliance from individuals and businesses that are not filing tax returns, which contributes toward a more equitable tax system. The Nonfiler Program used a variety of automated and manual processes to achieve compliance from nonfilers. The primary components of the Program were the automated Personal Income Tax Filing Enforcement (PIT FE) and the Corporation Filing Enforcement (CFE) systems. However, these systems had significant limitations, which prevented the department from reducing unnecessary intrusion into the lives of taxpayers and identifying taxpayers that do not file returns. The Integrated Nonfiler Compliance (INC) project was created and funded to solve these business problems and generate additional revenue for the state.

Prior to INC, FTB spent 80.1 personnel years and $4.7 million to identify and secure compliance from nonfilers through the Nonfiler Program resulting in over $200 million in net revenue annually. However, to prevent this revenue from being put at risk, the twenty-year-old automated systems, which supported the program, needed to be redesigned to remove significant limitations and improve efficiency. The Integrated Nonfiler Compliance (INC) project was created to accomplish this. It positions the department to begin the new century with the tools necessary to achieve and improve its business objectives, to meet or exceed the expectations of its customers, and to generate an additional $80 million annually to fund state programs.

FTB studies reveal there are millions of data records received each year by this department, which cannot be used by the existing systems because they are incomplete, incorrect, or not timely. The studies have shown that the recovery of most of these records is possible with improved processing and, together with new data sources, will result in the annual identification of over 100,000 potential new nonfilers with a resulting increase of more than $80 million in revenue annually (original revenues in the approved FSR were $36 million annually).

Improved information processing will also enable the department to reduce unnecessary intrusion into the lives of taxpayers by sharply reducing the number of erroneous notices, assessments, and collection actions which now occur from the use of incomplete or inaccurate data. The data will be more accurately associated to the appropriate individual or business. In addition, before any contact with the taxpayer is made, improved control over the automated processes will allow staff to determine if and when actions should be taken.

In accordance with the approved SPR, the 1998/99 INC Project budget was established in the amount of $2.8 million and 29.1 PYs to initially modify the current filing enforcement system and begin the alternative procurement process. For fiscal year 1999/00, the INC Project budget increased to $11.5 million and 49.3 PYs to continue design and development of the new system with the selected business partner. For fiscal year 2000/01, the project budget further increased to $21.2 million and 63.8 PYs, again to continue design and development of the new system. For fiscal years 2001/02 and 2002/03, negative BCPs were submitted to adjust the project budget to accommodate the final stages of INC implementation. This BCP request will reduce the project budget by $11.8 million to an ongoing baseline level of $5.6 million.

C. State Level Considerations:

This proposal generates additional revenues for the state. It addresses the state's "tax gap" – the difference between the amount of income taxes owed and the amount of income taxes reported and paid. Identifying and securing compliance from individuals and businesses that presently do not fulfill their return filing responsibilities will proactively address public concern about nonfilers and create a fairer and "more level playing field" while obtaining significant additional tax revenues.

The department has been using technology to improve the way it does business with the public for years, but now the department is poised to transform how it interacts with its customers. E-commerce is the medium for this transformation. The INC Project has implemented a new filing compliance system that allows taxpayers to resolve accounts via the Internet and move the department towards e-government.

Filing compliance data is currently obtained from several other State departments. There will be no change in the data from these departments and no impact to those other State departments as a result of this proposal.

D. Justification:

This proposal is fully supportive of FTB's Strategic Plan. The INC project supports all of the FTB strategic goals:

- Increase Satisfaction with the Administration of Our Programs
- Reduce Filing and Compliance Burden
- Achieve Optimal Level of Compliance
- Establish and Maintain a Strong Organization and Workforce
- Conduct Our Business Efficiently and Effectively

The proposal will increase satisfaction with the administration of our programs by addressing taxpayer concerns about nonfilers and by reducing intrusion caused by thousands of erroneous notices. It will ease the compliance burden on taxpayers by providing clearer and more focused communications, by providing simpler means to respond, and by laying the foundation for simplified filing methods in the future. It will improve the level of compliance by identifying and securing compliance from tens of thousands of taxpayers who do not presently meet their filing responsibilities. It will strengthen the FTB workforce by transferring business partner knowledge to the department's business and technical staff. It will also improve FTB efficiency and effectiveness.

A detailed listing of the Integrated Nonfiler Compliance Functional Requirements and their relationship to the stated program improvements is provided in the FSR for Project No. 1730-132, dated January 8, 1999.

The new system to be implemented by the INC Project will consist of three basic functions:

- information gathering
- nonfiler identification
- evaluation and decision support

Information gathering is acquiring, editing, cleansing, and transforming the data received from various sources and associating that data to taxpayers. *Nonfiler identification* is identifying taxpayers who have not met their filing requirements, notifying them and, if necessary, assessing them for unreported income tax liability, penalties, and interest. *Evaluation and decision support* is selecting, summarizing, and analyzing historical data concerning the program activities in order to evaluate and improve the activities needed to identify additional nonfilers and to increase the accuracy of notices sent to taxpayers.

Under this proposal, the project is developed and partially funded through the Alternative Procurement method. This method involved the selection and participation of a qualified business partner, IBM Global Services, who has assisted in the design and development of the new system. The business partner shares project risks by purchasing much of the hardware and software required for the project and by deferring their payment for contract services until benefits are realized as a result of the project. The use of a business partner has reduced the number of staff needed to complete the project.

The system implementation schedule has five phases.

Phase I – 1098 & Bad Name	Implemented	12/01/98
Phase II – 1099 & Data Recovery	Implemented	12/15/99
Phase III – Data Cleansing & Retention	Implemented	01/15/01
Phase IV A – Case Management, PIT	Implemented	05/15/01
Phase IV B – PIT NPA	Implemented	08/15/01
Phase IV C – Case Management, Corp	Implemented	06/30/02
Phase V – Decision Support		10/01/02
Phase V – Case Management		12/31/02

The project has successfully completed phase I, II, III and IV. The INC Project was awarded the Federation of Tax Administrators 2001 Compliance Award. This award is made to revenue departments for programs in tax compliance showing excellence, creativity, and effectiveness.

Additionally, the project has been successful by generating revenue that has substantially exceeded the FSR benefit projections, which were estimated at $36 million annually beginning in FY 2002/03 and we anticipate this trend will continue. For FY 2001/02, actual cash revenue generated was $48.9 million. This amount was less than the SPR projection of $60 million; however, the program area believes that this is a timing issue and anticipates that FY 2003/04 revenue will exceed the $80 million projected. The program still projects this project to generate additional cash revenue of $80 million on an annual basis.

The following table outlines the INC Project benefits:

Fiscal Year	**Original Revenue Estimate (in millions)**	**Actual or Revised* Estimate (in millions)**	**Increased Benefits (in millions)**
1998/99	$7.0	$3.6	-$3.4
1999/00	$19.0	$34.6	$15.6
2000/01	$30.0	$55.3	$25.3
2001/02	$35.0	$48.9*	$13.9
2002/03	$36.0	$80.0*	$44.0
Total	**$ 127.0**	**$ 222.4**	**$ 95.4**

* Over the project life, cash benefits associated with the INC Project are projected to be $313.5 million (FY1998/99-2003/04).

E. Analysis of Feasible Alternatives:

Alternative # 1 -- Reduce the project funding by $11.8 million in accordance with the SPR approved in February 2002, to maintain the INC Application System in production on an ongoing basis generating $80 million in additional revenue annually. Of the amount reduced from the project, $5.0 million will be redirected to FTB's FY 2003/04 BCP #1 – Phase III.

In this alternative, we propose a negative Budget Change Proposal (BCP) of $6.792 million. The department will continue to maintain the INC application in production and the INC system would continue to identify nonfilers and secure their filing compliance. The system has generated significant benefits and has resulted in $313.5 million additional revenue over the life of the project. This benefit projection has been revised since the original benefits were underestimated and the project has generated substantial benefits in excess of the original projections. Actuals are $48.9 million (vs. $35 million) in FY 2001/02 and projections are $80 million (vs. $36 million) in FY 2002/03, FY2003/04 and ongoing.

Alternative # 2 -- Reduce the project funding by $11.8 million but not adjust to redirect savings elsewhere.

Under this alternative, FTB would not be able to fund necessary Phase III expenditures. This will cause a significant delay in the Phase III occupancy and in turn will require the Department to incur additional lease expenditures (up to $650,000 a month) for FTB office space, and the State Office Project will incur delay costs (approximately $500,000 a month) until planned Phase III moves can be accomplished.

F. Timeline:

Milestone	Date	
Obtain Final Conceptual Proposals from Vendors	07/31/98	Completed
Select Business Partner	11/30/98	Completed
Implement Phase I	12/01/98	Completed
FSR Approval	03/10/99	Completed
Award Contract	04/30/99	Completed
Implement Phase II	12/15/99	Completed
Implement Phase III	01/15/01	Completed
Implement IV A – Case Management, PIT	05/15/01	Completed
Implement Phase IV B – PIT NPA	08/15/01	Completed
Implement Phase IV C – Case Management, Corp	06/30/02	Completed
Implement Phase V – Decision Support	10/01/02	
Implement Phase V – Case Management Systems Enhancement	12/31/02	
Conduct PIER	12/31/03	

G. Recommendation:

Alternative #1 is recommended. Approve project reduction of $11.8 million for FY 2003/04 to a baseline level of $5.6 million in order to continue FTB's Nonfiler program and to generate an additional $233 million over the life of the project and $80 million annually beginning in FY 2002/03. Redirect $5.008 million to FTB's BCP #1 – Phase III to accommodate the departments occupancy of the expanded Butterfield Complex. This proposal will allow for the timely occupancy of the Phase III complex without incurring project delay costs or additional lease expenditures. As stated previously, this redirection is in response to Budget Letter 02-20.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2003/04
DF-46 (REV 03/00)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
3		1730	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
10 Tax Programs	00 All Tax Programs		

TITLE OF PROPOSED CHANGE:

Global Network Infrastructure Strategy (GNIS)

SUMMARY OF PROPOSED CHANGE:

This proposal addresses the security deficiencies in the department's network infrastructure by replacing the existing Raptor firewalls in order to comply with the requirements of the State Information Management Manual (SIMM) Section 2.3.1.4.3c.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☒ ONE-TIME COST ☐ FULL-YEAR COSTS ☐ FACILITIES/CAPITAL COSTS ☐ FUTURE SAVINGS ☐ REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE:
PROGRAM APPROVAL			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE:

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT A revised FSR will be submitted September 2002.

DATE PROJECT # 02-02 FSR ☒ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

FRANCHISE TAX BOARD
Fiscal Year 2003/04

Budget Change Proposal **BCP No. 3**

Global Network Infrastructure Strategy (GNIS) **Date: August 26, 2002**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests a redirection of $484,000 for FY 2002/03 and $330,000 for 2003/04 to replace the existing Raptor firewalls with a product that will comply with the security requirements outlined in the Statewide Information Management Manual (SIMM) and to resolve a critical operational and security issue. The Global Network Infrastructure Strategy (GNIS) project addresses three strategic components of the FTB's network infrastructure platform: security, sustainability and scalability. The sustainability and scalability components, although extremely important to FTB's mission, may be deferred given the current fiscal constraints facing the State of California. However, the security component of the GNIS undertaking is mission critical and needs to be resolved as soon as possible.

A revised Feasibility Study Report (FSR) is being prepared and will be submitted to the Department of Finance, Technology Investment Review Unit (TIRU) in September 2002.

B. BACKGROUND/HISTORY

The Franchise Tax Board has been using technology to improve the way it does business with the public for years, but now the department is poised to transform how it interacts with its customers. The goal is electronic government, or E-Government, which is the model for how government interacts with individual taxpayers, businesses, corporations and business partners in the private and public sectors, including other State of California Agencies and the Internal Revenue Service. For FTB, the goal of E-Government is to provide customers, clients and FTB employees with integrated electronic services that are relevant, convenient, secure and accessible 24 hours per day, 7 days per week.

The current network infrastructure is not in compliance with the Department of Information Technology (DOIT), SIMM, and Security Standards-Security Architecture. Currently, there is only one firewall to protect the E-Government portion of network infrastructure. It is a requirement in SIMM (2.3.1.4.3 c, see *Attachment I*) that the infrastructure be designed "…so all communications with the Internet must pass through two differently-authored firewall systems separated by an isolated network." Currently, not all segments of the network are monitored by Intrusion Detection Response Systems (IDRS) and the security components in place are not fault tolerant. In fact, the entire network infrastructure has very little built-in fault tolerance. It is not backed up by secondary devices, which would provide service if there were to be a failure in the network's infrastructure. Currently, FTB cannot assure its clients and customers that the network will be available on a 24 by 7 basis. The network infrastructure has had a failure rate of up to 10-12 times per year; and it has been unavailable for access on these occasions anywhere from two minutes to intermittently being unavailable for three to four consecutive days.

FTB must perform in a manner that warrants the highest degree of public confidence in its ability to continue essential State programs and ensure the fiscal integrity of the State. FTB is mandated by legislation to administer applications that support critical business programs. Present and future E-Government initiatives support some critical applications. The State Administrative Manual defines critical applications, as those that are, "…so important to the State that the loss or unavailability of the applications is unacceptable". With a critical application, even short-term unavailability of the information provided by the application, would have a significant negative impact "…on the fiscal or legal integrity of State operations; or on the continuation of essential agency programs." The sustainability and availability of the current network infrastructure cannot be guaranteed, and therefore there is no assurance that the critical applications that support FTB's business programs and E-Government initiatives would be available.

In addition, the current Infrastructure is not scalable. Presently, if additional components are necessary to accommodate the provision of a new application, these components are added to the infrastructure in a piece-meal fashion, which has led to a segmented "stovepipe" infrastructure. As a result, the infrastructure is difficult to manage and to provide diagnostics.

C. STATE LEVEL CONSIDERATIONS

FTB has an obligation to stakeholders and its government partners to maintain service levels and usability standards that meet or exceed those provided by other government agencies. It is anticipated that FTB will also be required to conduct more online partnerships with other state and federal agencies, and to provide customers with more seamless government services. The successful completion of the GNIS project will enhance FTB's ability to safely and securely share information within the department, between departments, and with clients and taxpayers.

D. JUSTIFICATION

After evaluating the proposed infrastructure requirements to support the implementation of FTB's E-Government initiatives, the department decided to pursue a Global Network Infrastructure Strategy to support these current and future efforts. Inherently high costs, redundancy of effort and components, coordination of network modifications and the risks associated with a piece-meal methodology for network growth have all contributed to the conclusion that FTB needs to thoughtfully assess and consolidate the technical evolutionary growth of the network infrastructure, specifically scoped to E-Government initiatives.

The recent economic turndown coupled with the State's project approval guidelines caused the department to re-evaluate this undertaking. Although the business case and cost of moving to the GNIS platform is well justified, the scope of this project is reduced to include only those security components necessary to protect our clients' private information as required by State and Federal mandates. Out of deference to the current fiscal constraints facing California, the department is proposing only the most mission critical security needs be addressed at this time and that the balance of the GNIS undertaking be resubmitted when the State's fiscal condition is more favorable.

Providing a global network infrastructure supports the following Strategic Goals in FTB's Strategic Plan: Goal #1, Become Customer-Centered, by making it easier for customers to access and use products and services, empower taxpayers and others to resolve their issues through convenient self-service options. Goal #4, Deliver Efficient and High-Quality Business Results, which capitalize on opportunities to improve efficiency through implementation of electronic processes and services, and Goal #5, Protect Taxpayer Privacy and Ensure Security of Taxpayer information, by establishing architectural standards for confidentiality of taxpayer information, use industry best practices for information security, ensure transactional integrity and use appropriate authentication models.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 - Augment FTB's budget by $1,215,000 and 1.9 PYs to acquire a "dual authored" architecture which will provide for improved security, fault tolerance and scalability of the network infrastructure. (Under this alternative, total costs for the project will be $8.8 million over six years. Hardware and software will be purchased under a five-year installment plan.)

This alternative provides for a new network infrastructure that is a single site dual network path, fully redundant and a scalable configuration, which consists of four unique layers: an Internet Service Provider (ISP) Layer, a DMZ (D-Militarized Zone) Layer, an E-Government Layer and an Internal Layer.

The first layer will consist of two Internet Service Providers in order to provide for back up if one of the ISPs were to fail. The second layer, the DMZ Layer, provides a buffer zone that has no direct linkage between the Internet and FTB's private network. In the third layer, the E-Government Layer, traffic cannot move directly between Web, Applications, Transaction, Multimedia and Development services but rather must pass twice through firewalls. The fourth layer, the Internal Layer, is also protected by firewalls and other components that provide for reliability and availability. The Intrusion Detection Response Systems (IDRS) provides security surveillance for all the layers of the GNIS architecture.

This alternative provides a new network infrastructure that will: (1) support robust security components and firewalls that are compliant with SIMM as critical features of the infrastructure, (2) provide for inherent fault tolerance because the network infrastructure design consists of identical components on parallel paths, which serve as back-up to one another and assures the availability and reliability of E-Government services 24 by 7 and at a 99.9% probability rate, and (3) provides an integrated infrastructure that will be scalable for future growth.

<u>Alternative #2</u> - Augment FTB's budget by $969,000 and 1 PY to acquire a "single authored" network architecture. (Under this alternative, total costs for the project will be $7.6 million over six years. Hardware and software will be purchased under a five-year installment plan).

This alternative also provides for a new network infrastructure. The first three layers would be the same as those described above in Alternative #1. The Internal Layer is the only layer that would have different components from the proposed alternative.

The Internal Layer is the layer on which all of FTB's data is stored. In this alternative, this data would be stored behind another set of firewalls. These firewalls would be manufactured by the same company and have exactly the same specifications as those firewalls that would be installed in the DMZ and the E-Government Layers. It is a requirement in SIMM that the infrastructure be designed "…so all communications with the Internet must pass through two differently-authored fire wall systems separated by an isolated network. "The terminology, "…two differently-authored…" translates to "two firewalls produced by different manufacturers." The SIMM requirement is based on the logic that once a potential hacker has successfully navigated through one set of firewalls from a particular manufacturer, that this person has gained sufficient knowledge to navigate through another set of firewalls from the same manufacturer.

This solution is complex and does not comply with the (DOIT), SIMM, Security Standards-Security Architecture. Alternative #1 provides "defense in depth," because the additive effect of separately authored firewalls increases the overall level of security, as opposed to Alternative #2 in which the design is analogous to having two locks with identical keys.

<u>Alternative #3</u> - Maintain the current system. No additional funding will be required.

If the network infrastructure is not augmented, the department will continue to experience network failures due to the lack of fault tolerance. The current network infrastructure is also not in compliance with DOIT, SIMM, and Security Standards-Security Architecture requirements. The E-government layer and development segment of the network will remain unprotected because of a lack of monitoring by an intrusion detection response system. Finally, without a scalable network architecture, additional components needed for future applications will be added in a piece-meal fashion leading to an infrastructure that is difficult to manage.

<u>Alternative #4</u> - Redirect FTB's budget by $484,000 for FY 2002/03 and $330,000 for FY 2003/04 to replace the existing Raptor firewalls with a product that will comply with the security requirements outlined in the Statewide Information Management Manual (SIMM) and to resolve a critical operational and security issue. Funding for this project will be redirected from the department's ongoing budget for Data Processing.

This two-phase alternative will provide the E-Government network infrastructure with enhanced security features that ensure the continued confidentiality and integrity of FTB's customers' information.

The existing Raptor firewalls are unstable. They cause Internet service interruptions for both internal and external users, they interrupt inbound & outbound SMTP (Outlook) e-mail and they offer inadequate product support. The new firewall application supports user-based authentication. This will allow enforcement of FTB's employee "Internet Use" policy as required by Management Memo 97-03.

To delay the resolution of security issues identified in the GNIS project is to invite disaster in several forms including the following:

- The unauthorized release of private customer information (involves violation of state and federal information security mandates).
- Network unavailability and congestion that may lead to a loss of customer confidence in and use of our electronic information and transaction tools (e-Taxpayer).
- Network unavailability and congestion that may lead to an immeasurable loss of employee productivity (e-Employee).

This alternative will evolve FTB's enterprise network platform towards the GNIS model. The stability of the FTB network will be partially enhanced by provisioning the firewalls with "statefull failover", a feature that will allow a user to continue on with a session without interruption in the event of a failure to one of the firewalls. Unauthorized intruders (hackers) will be presented with two layers of firewall to penetrate because of the redundant, dual, differently authored firewalls separated by a DMZ as required by the State Information Management Manual (SIMM) and as recommended by the IT industries' best practices.

F. TIMETABLE

	COMPLETION DATE
FSR Approval	01/30/03
Procurement of Phase I Equipment	02/28/03
Procurement of Phase II Equipment	01/30/04
Full Project Implementation	10/30/04
Project Completion	02/28/05

H. RECOMMENDATION

Alternative #4 is the recommended solution. This solution is based on an immediate need to replace the existing Raptor firewalls and tendered by the fiscal constraints currently facing the State of California. This is a long-term investment in network infrastructure as components procured under this project are also required parts of the GNIS vision. This configuration is consistent with the designs employed at the Department of Justice Hawkins Data Center and the Health and Human Services Data Center. The project will be funded utilizing the department's ongoing Data Processing budget.

Department of Information Technology
Statewide Information Management Manual (SIMM)
Security Standards - Security Architecture

2.3.1.4.3 Standards

a. All servers or services will be protected by at least one firewall system located between the server and each external network entry point.

b. Firewalls will include, at a minimum, provisions for packet filtering, application proxy, or circuit-level gateways. When the server is accessed through the same Internet access point used to access the Internet from internal workstations, proxy services and/or address translation will be implemented.

c. Whenever the server will be used to store, transmit, or process private information, the firewall systems employed will be located so all communications with the Internet must pass through two differently-authored firewall systems separated by an isolated network.

d. Firewall log files will not be stored on the host firewall.

e. Bastion hosts shall be secured to allow only required and necessary services. Bastion hosts will not be used to store private data or program logic.

f. Data and business logic will be accessed from servers on the private side of the firewall. No data and sensitive business logic will reside in the DMZ. At minimum, a two-tier server configuration is warranted where the first tier is the bastion host with static pages and the second tier server is secured in the private network.

g. Personal firewalls will be required on systems remotely accessing agency networks across broadband networks or with simultaneous access to untrusted networks.

h. Minimal authentication methods will include unique userids and passwords. Direct access to information resources by non-agency persons will require the use of strong authentication methods such as biometrics, smart cards, or digital signatures.

i. All agencies must maintain malware scan software on desktops, servers, and gateways.

j. Any transmission of information classified by the Data Owner as private must be encrypted using SSL/TSL when the transmission is between a State owned web site or an outside entity providing services for an agency and a browser client.

k. Any transmission of information classified by the Data Owner, as private between State servers or between State and external servers must be encrypted.

l. The cryptographic keys will adhere to the following standards:

- **1**. Private keys must be kept confidential.
- **2**. Key management must be fully automated.
- **3**. Use a short life for cryptographic keys. Keys with a long life must be sparely used.
- **4**. Encryption will be used to protect keys in storage and transit. No key can appear in the clear outside a cryptographic device.
- **5**. Keys must be randomly chosen from the entire key space.
- **6**. Key encrypting keys must be separate from data keys. Keys that are used to encrypt other keys must not be used to encrypt data, and vice versa.
- **7**. Cryptographic keys used for digital signatures will be different from those used for encryption.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2003/04
DF-46 (REV 03/00)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
4		1730	**Franchise Tax Board**

PROGRAM	ELEMENT	COMPONENT
10 Tax Programs	00 All Tax Programs	

TITLE OF PROPOSED CHANGE:

Sustained Legal Workload

SUMMARY OF PROPOSED CHANGE:

The funding request is to permanently establish five limited term positions expiring on July 1, 2003. Funding for the positions must continue in order to avoid delay of $53.8 million in ongoing revenue and to continue closing protest cases within the 33 month target timeframe.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☐ ONE-TIME COST ☐ FULL-YEAR COSTS ☐ FACILITIES/CAPITAL COSTS ☐ FUTURE SAVINGS ☒ REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY	DATE

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT. N/A.

DATE PROJECT # FSR ☐ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

FRANCHISE TAX BOARD
Fiscal Year 2003/04

Budget Change Proposal **BCP No.: 4**

Sustained Legal Workload **Date: August 26, 2002**

A. Nature of Request

The Franchise Tax Board (FTB) requests resources to permanently establish five limited-term positions (4.75 PY's, $522,000) that will expire June 30, 2003. Four limited-term positions were authorized to address the workload impacts of FTB Notice 99-1 on protest cases, speeding up the resolution of docketed protests to within 33 months. The revenue generated and supported by these positions more than pay for their cost and contribute significant additional revenue to the State's General Fund. These four positions each handle, on average, a caseload of 4.32 docketed protests generating $3.1 million per case. The fifth position functions as part of the Branch's technical support team that is assigned to ensure that the server and desktop business platform is accessible and functioning properly. This system is integral to attorneys in the processing and resolution of disputed tax cases and the associated revenue. In total, an average of $53.8 million in ongoing sustainable tax revenue is subject to delay.

B. Background

The Legal Branch is responsible for providing the highest quality counsel, legal advice, representation, and service for matters involving the FTB. Specifically, the legal staff:

- represent the department in tax matters in protest, appeal, out-of-state bankruptcy and settlement cases;
- assist the Attorney General in court with respect to refund litigation cases and with in-state collections and bankruptcy matters;
- represent the department in personnel matters before the State Personnel Board, Board of Control cases and other administrative proceedings;
- provide advice and counsel to the department with respect to the department's legislative program, forms review, contract and general counsel matters, as well as the department's non-tax programs;
- develop regulations, legal rulings and public notices; and,
- coordinate Board meetings and respond to requests for information from Franchise Tax Board members.

The current organizational structure of the Legal Branch has been in place since 1992. It consists of the following five bureaus:

- Tax Administration and Procedures (TAP) Bureau
- General Tax Law Bureau (GTLB)
- Multistate Tax Bureau (MTB)
- Settlement Bureau (SB)
- Legal Affairs Bureau (LAB)

All bureaus, with the exception of LAB, directly correspond to the organization of those components of the Revenue and Taxation Code that the department is charged with administering. The LAB staff provides legal counsel and representation to the department as a whole and administrative support to the Legal Branch.

C. <u>State Level Considerations</u>

Due to a sustained existing workload and the increasing complexity of this workload, the Legal Branch is taking proactive measures to maintain the quality and quantity of its work by establishing priorities and requesting appropriate resources. This proposal is consistent with the requirements of the Taxpayers' Bill of Rights to improve taxpayers' rights to fair treatment by ensuring that staff resources are sufficient in number to respond to taxpayer inquiries and disputes in a timely manner.

D. <u>Justification</u>

This proposal is consistent with the Department's strategic goals to: (1) "become customer-centered"; (2) "promote fair and effective tax administration"; (3) "build a strong organization"; (4) "deliver efficient and high-quality business results"; and, (5) "protect taxpayer privacy and ensure security of taxpayer information" by providing the staff resources necessary to address the Legal Branch workloads.

<u>Docketed Protests</u> – 3.8 PY's (4 positions)

In FY 2000/01, the Legal Branch received authorization for four limited-term Tax Counsel III positions in order to meet the demands of the Legislature and FTB Notice 99-01 requiring that docketed protest cases be completed within 33 months. These positions are assigned to MTB and will expire June 30, 2003. As provided in December 2001 to the Legislature and Budget Committees in the Report on Docketed Protests, as mandated by the Supplemental Language to the 2001 Budget Act, 68 percent of the Bank and Corporation and 71 percent of the Personal Income Tax docketed protest case inventory was on track with the 33-month processing target required by the 2001 Budget Act. The remaining inventory was not meeting the target timeframe due to issues that include uncooperative taxpayers, case status reassignment (i.e., return to undocketed protest), a deferred case status pending settlement, litigation, bankruptcy or delays in obtaining files, or workload in excess of staff resources.

<u>Legislature's 33-Month Protest Process</u>
The original justification for the four limited-term positions was based on compressing the docketed protest processing time from the previous 51 months to 33 months, less the 3-month time allotted for account processing and issuing of notices (48 months to 30 months). At that time, the average inventory was 118 docketed protest cases.

The average active docketed protest inventory at the close of FY 1999/00 through FY 2001/02 is 130 (FY 1999/00 @ 116 cases, FY 2000/01 @ 135 cases, FY 2001/02 @ 138 cases). This is a significant increase in caseload from the original 118 that existed when the limited-term positions were first authorized. The Legal Branch holds

that the most recent FY 2001/02 caseload is an accurate projection of future inventory levels.
82 of the 138 docketed protest cases in inventory June 30, 2002 are assigned to MTB attorneys. The total tax in dispute in these cases is in excess of $563 million with a very conservative sustainment rate of 45 percent. With interest (conservatively estimated at 6 percent) the average value of each MTB docketed protest case is estimated at $3.1 million. The total projected sustainable value of the four limited-term attorneys caseload is estimated at any one time at $53.8 million.

Attorneys assigned to docketed protests dedicate the majority of their hours towards directly working docketed protest cases. The positive impact of the four limited-term positions upon the age of the docketed protest inventory has been dramatic. The following table shows the downward trend regarding the percentage of docketed protests in the department's inventory that are older than 24 months:

2000	2001	2002
43%	34%	19%

It should be noted that beginning with the 2003 year, the number of cases in inventory exceeding 24 months old is expected to stabilize at 16 percent. By December 10, 2002, the Legal Branch Report on Docketed Protests will be submitted to the Legislature and Budget Committees for the second annual update on the success of the 33-month target. Information made available in that report will help to further substantiate the necessity of authorizing permanency for these four limited-term positions.

The permanent baseline staff resources for docketed protest cases must be recognized and funded in order to sustain a practical inventory level and to resolve those cases within the 33-month prescribed period of time. The ultimate result of allowing these positions to expire will be a build-up of the same backlog of aged cases that the department has only now eliminated after a concerted five-year effort. **Consequently, the Legal Branch is requesting 3.8 permanent PY's or 4.0 Tax Counsel III positions in order to meet, on an ongoing basis, the 33-month docketed protest process expectation of FTB Notice 99-01 and prevent delay of $53.8 million in caseload revenue.**

It should be noted that the 2002 Budget Act, which is pending approval, includes authorization of 6 three-year limited-term positions in the Legal Branch to allocate towards complex docketed protest cases (2 positions) and to ensure their completion within the 33-month process, and in order to accelerate Settlement revenue (4 positions). Denial of the positions requested in this budget request for docketed protests would undermine and be counterproductive to the concepts of generating "additional" revenue through the allocation of these six new limited-term positions.

<u>Technical Support Function - </u>.95 PY's (1 position)

A primary function of the Legal Affairs Bureau is to provide services to the Branch in the Administrative, Technical and Clerical Support areas. The four-person technical support team is charged with maintaining the Legal Branch's personal computers, local area network, and server systems, facilitating system evaluations, inventory and procurement needs, and acting as Branch representatives on departmental information technology issues. One technical support position was authorized in FY 2000/01 with the four limited-term attorney positions discussed above. This position also expires on June 30, 2003.

The Legal Branch conducts its business via the PASS Case Resolution System. PASS is the electronic business platform by which tax cases originate from an audit and are introduced into the Legal Branch. These tax cases are addressed by Legal staff within the PASS environment in the appropriate docketed protest, appeal, litigation, claim for refund, or settlement processes. Therefore, the most significant service provided to the Legal Branch by the technical support team is ensuring that the PASS system is accessible and that the desktop and server systems remain operable. In order to carry out this service, the peripheral activities such as inventory, procurement, systems evaluation, and Branch representation are also necessary. It is integral to sustaining the daily business operations of the Legal Branch and the resolution of disputed tax revenue that this limited-term position is permanently established. The detail of ongoing workload provided below fully supports this request.

Workload Projections

In FY 2001/02, the technical support team expended a total of 6,870 hours, or 3.8 PY's toward direct support workloads. Approximately 84 percent of the direct workload hours, or 5,759 hours and 3.2 PY's (includes 156 hours of overtime) are attributable to the direct workload category of hardware/software maintenance. This activity includes the support of PASS and other business applications on the servers and personal computer systems used by Legal Branch staff. The remaining 16 percent direct workload activities are attributable to: PASS project support activities, 8 percent; and, inventory control and evaluation, 8 percent. The Legal Branch projects that these required technical support activities will increase as we reach compliance with Executive Order D-10-99 and Management Memo 01-10 regarding software licensing laws and annual self-certification. Elimination of the limited-term position will result in a staffing void and a labor demand that is far in excess of any reasonable overtime expectations of the remaining three positions. As a consequence, Legal Branch staff will experience system and user downtime that will result in delayed resolution of disputed tax revenue. **This proposal requests the permanent authorization of a .95 PY Staff Information Systems Analyst for the vital ongoing support of the technical environment of the Legal Branch.**

E. Facility/Capital Outlay Considerations

The facilities funding requested in this BCP is $4,340 per position. The dollar figure was derived using the actual average cost per position of the facilities costs. The standard costs requested in this BCP will be sufficient to provide for on-going facilities cost for the five continuing positions.

F. Analysis of all feasible alternatives

Alternative 1: Provide additional funding of $522,000 and 4.75 PY's to address sustained workloads.

This alternative will enable the Legal Branch to sustain its present allocation of staff towards the completion of MTB's docketed protests. The existing staff level will also be retained towards the support of server and personal computer systems, which will eliminate avoidable system downtime and sustain staff productivity towards revenue workloads. The staffing requested would support and provide a quality service that is integral to public trust and accountability, and that is essential to safeguard the integrity of a significant percentage of the State's General Fund. Not approving this proposal will delay up to $53.8 million in on going revenue and will increase the time required to resolve protests beyond the 33 months target.

Alternative 2: Provide additional funding of $522,000 and 4.75 PYs on a limited-term basis.

Limited-term position authority will meet the immediate need for staff resources towards MTB's docketed protests and the technical support workloads. However, it should be noted that staff hired into limited-term positions frequently vacate these positions to pursue permanent employment opportunities. The Legal Branch expends significant effort and resources to develop and train staff. These resources are best spent and most valuable to the department when employees are retained and can continue returning the investment of training and experience to the organization.

Alternative 3: Allow the five limited-term positions to expire. No funding required.

If funding is not provided for the five limited-term positions:

- The rate of conformity to the 33-month protest processing target will significantly decline and lead to a delay in achieving and/or potential losses in tax case revenue up to $53.8 million in the first 33 months and,
- Untimely repair or maintenance of server/computer systems extending downtime, resulting in delay and/or loss of revenue, and reduced staff production.

G. Timetable

Permanently establish five limited-term positions on July 1, 2003.

H. Recommendations

Alternative #1 providing additional funding of $522,000 and 4.75 PY's is recommended. This alternative will enable the Legal Branch to sustain conformity with the 33-month docketed protest process as it pertains to the Multistate Tax Law area and avoid delay up to $53.8 million in the associated tax revenue in the first 33 months. Furthermore, the establishment of the permanent technical support position will provide the resource necessary to ensure that the PASS system is accessible and that the desktop and server systems remain operable.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2003/04
DF-46 (REV 03/00)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
5		1730	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
10 Tax Programs	00 All Tax Programs		

TITLE OF PROPOSED CHANGE:

Investigations - Underground Economy Pilot

SUMMARY OF PROPOSED CHANGE:

Permanently establish the FTB cash pay/underground economy investigation pilot program.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☐ ONE-TIME COST ☐ FULL-YEAR COSTS ☒ FACILITIES/CAPITAL COSTS ☐ FUTURE SAVINGS ☒ REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE:
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE:

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT _____________.

DATE PROJECT # FSR ☐ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

FRANCHISE TAX BOARD
Fiscal Year 2003/04

Budget Change Proposal **BCP No.: 5**

Investigations – Underground Economy Pilot **Date: August 26, 2002**

A. NATURE OF REQUEST

The purpose of this request is to continue FTB's cash pay/underground economy investigation pilot program by permanently establishing the six limited term positions dedicated to that workload. To date, the pilot program has more than paid the cost of the six positions by generating $1.3 million in tax revenue in the first two years.

Based on actual revenue data from FY 2001/02, the department estimates that continuing the pilot program with these six positions will generate $5.7 million annually beginning in FY 2004/05 (Attachment I). By allowing for continuation of the pilot, revenue benefits can be validated and the program can be evaluated for possible expansion in future years.

B. BACKGROUND/HISTORY

FTB investigates individuals and corporations who fail to file returns (non-filers) or those who intentionally under report their income. The benefits generated through criminal investigations deter potential fraud and encourage voluntary compliance. When the FTB cash pay/underground economy pilot program was established in FY 2000/01, the intent was to pursue individuals and businesses that flagrantly violate tax laws and significantly impact legitimate business groups in a negative way.

In July 2000, FTB received six limited term positions to investigate the cash pay/underground economy cases. FTB has since fully trained the six staff over an 18 month period and is now actively involved with the underground economy investigations. For example, in FY 2001/2002, staff conducted and closed its first six investigations, which resulted in two cases being prosecuted with under reported income of $18.1 million and a tax assessment of $1.3 million. Therefore, the revenue generated by these six limited term positions has more than paid for the cost of the positions even with 18 months of training. Given the results thus far, the Department considers the pilot very successful and indicative of significant revenue potential.

The cash pay/underground economy cases that are being pursued are those in cash paying businesses such as the construction industries and those reported in Suspicious Activity Reports (SARs) received from financial institutions, and joint cases with other state and local agencies. The pilot program has already shown the potential of the cash economy threatening the California tax base with 15 cases currently under investigation totaling $258 million in unreported income. The FTB has been using the SAR reports as the main tool in identifying this unreported income. FTB believes that in order to collect the proper tax revenue for the State of California, it must fully utilize the SAR information. According to the Federal Government, the number of California SAR filings has been growing steadily since 1996. In calendar year 2000 SAR filings increased 66% over 1999. Below is a table that shows California versus the United States in SAR filings since the inception of this federal tracking system:

Suspicious Activity Reports (Bank Cash Deposits Under $10,000)

Category	1996 (9mths)	1997	1998	1999	2000
United States	49,525	81,597	96,932	120,506	156,931
California	12,217	18,151	23,370	25,042	41,800
% CA to US	24.6%	22.2%	24.1%	20.7%	26.6%
% Growth of Ca SAR's		48%	28%	7.1%	66%

In addition, FTB has identified other investigative tools at its disposal such as the Federal Currency Transaction Reports (CTR) and the Cash Payment Reports IRS Form 8300 that would increase tax compliance. FTB will also be evaluating the possible benefits of utilizing these tools in addition to resources currently available.

This cash pay/underground economy is estimated to be costing California citizens $3 billion annually in tax revenue. The Los Angeles Times reported in their May 6th, 2002 issue "a new study co-authored by Daniel Fleming, President of the Economic Roundtable, a nonprofit, public policy research organization in Los Angeles, estimates that up to 1.5 million of Los Angeles County's workers are now paid in cash, which is a destabilizing economic trend." The study also reports that up to 28% of the Los Angeles workforce is paid in cash, which means one in four do not pay taxes.

C. STATE LEVEL CONSIDERATIONS

Compliance with personal income and business and corporation tax law is the responsibility of the Franchise Tax Board. The FTB must ensure the state that tax gaps do not continue to grow. The state is dependent on tax revenue to provide services that Californians want. A growing tax gap would increase budget problems. It is in the best interest for all Californians that the state pursues ways to enhance tax compliance to ensure all taxpayers pay their fair share and ensure revenue is available to fund state programs.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The on-going facilities funding requested in this BCP is $4,340 per position. The dollar figure was derived using the actual average cost per position of the facilities costs. The standard costs requested in this BCP will be sufficient to provide for on-going facilities costs for the six permanent positions.

E. JUSTIFICATION

This request meets both the FTB Strategic Goal # 2 of promoting fair & effective tax administration and Goal # 4 of delivering efficient and high quality business results. FTB will be contributing to the accomplishment of both goals through more aggressive tax compliance effort. The FTB must continue to encourage compliance by sending a clear message that tax evasion will not be tolerated, by making an example of high profile tax cheats. In addition, by utilizing the various investigative tools mentioned above, FTB will be assisting the Administration and Legislature with ensuring that the "Tax Gap" is closing through fair & effective tax administration.

The continuation of the pilot cash pay/underground economy program will generate an estimated $5.7 million in additional tax revenue for the state of California annually beginning FY 2004/05. The estimated cost is $ 521,000 annually to maintain the six positions on a permanent basis.

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

ALTERNATIVE #1 – Permanently re-establish position authority and $521,000 in funding for 6 positions (5.7 PY's).

Permanently establish the 6 limited term investigator positions set to expire June 30th 2003. This request will allow FTB to continue to evaluate the cash pay/underground economy data that has become available through the SAR filings and generate a projected $5.7 million annually beginning in FY 2004/05 (see attachment I).

ALTERNATIVE #2- Permanently augment FTB's budget by $1,896,000 consisting of 5.7 PYs to permanently establish 6 limited term positions and provide an additional 16 new positions within the Investigations Bureau.

This alternative will allow for FTB to assist the Administration and Legislature of ensuring that the "tax gap" is closing through fair & effective tax administration. In order for FTB to collect an estimated $17 million in additional tax revenue, FTB will need 22 (6 LT + 16 new) additional positions and associated costs. Using preliminary data, FTB estimates that an additional 16 positions (in addition to the 6 limited term being made permanent) may be able to generate up to $17 million annually. While the FTB believes there is significant tax revenue in the underground economy, more actual data is needed to be collected in order to accurately quantify this potential.

ALTERNATIVE #3 – Allow the 6 limited term positions to expire June 30th, 2003. No additional funding will be required.

Projected revenue loss associated with this alternative is $5.7 million. This alternative will also allow the underground economy to increase, which will undermine revenues for State of California.

G. TIMETABLE

Permanently re-establish the 6 limited term investigator positions effective July 1, 2003.

H. RECOMMENDATION

Alternative #1 is the recommended solution because FTB believes this alternative will allow FTB to evaluate the cash pay/underground economy more accurately and to better plan for expansion if anticipated revenue potential is realized.

This alternative allows the department to generate a projected $5.7 million annually beginning in FY 2004/05. In addition, by allowing for continuation of the pilot, revenue benefits can be validated and the program can be evaluated for possible expansion in future years.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2003/04
DF-46 (REV 03/00)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
6		1730	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
40 Child Support Program	00 Child Support Program		

TITLE OF PROPOSED CHANGE:

Child Support Replacement Project

SUMMARY OF PROPOSED CHANGE:

The Child Support Replacement Project is projected to be implemented on December 31, 2002. This BCP is to revert the one-time CSRP project cost and realign the ongoing base. The net adjustments total <$1.1> million (<$2.0> million General Fund and $0.9 million Federal Reimbursements).

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☐ ONE-TIME COST ☐ FULL-YEAR COSTS ☐ FACILITIES/CAPITAL COSTS ☐ FUTURE SAVINGS ☐ REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL?

☒ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT

DATE Approved May 2001 PROJECT #1730 - 155 FSR ☒ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

FRANCHISE TAX BOARD
Fiscal Year 2003/04

Budget Change Proposal **BCP No.: 6**

Child Support Replacement Project (CSRP) **Date: August 26, 2002**

A. NATURE OF REQUEST

The State of California enacted legislation that required the FTB to collect child support delinquencies. In response to this legislation, FTB developed the Consolidated Debt Collection (CDC) System. As the child support enforcement efforts grew and other legislation required changes to the CDC System, its capacity to process additional child support cases became limited. In addition, the CDC System was operating with outdated and unsupported technology. To address these issues, FTB submitted a FSR request to move the existing child support system functionality (CDC System) to a new platform with increased capacity. The FSR was approved in May 2001. FTB submitted and received approval for Finance Letter #2 (FY 2001/02), which included funding for the CSRP project and the project commenced in late June 2001. For FY 2002/03, BCP #10 was submitted and approved to reduce the resource need for the CSRP project.

The CSRP is progressing on schedule and will be implemented by December 31, 2002. This BCP further reduces the CSRP budget to the ongoing funding need for FY 2003/04 as approved in the FSR. Because of differences in funding sources between the project (100% General Fund) and the ongoing Child Support Program 40 (34% General Fund and 66% Federal Reimbursements), this BCP also requests an adjustment to the funding source for the ongoing need.

B. BACKGROUND

In 1993 (Speier, AB 3589; Stats. 92 Ch. 1223), FTB began collecting delinquent child support through a pilot project in which six counties were authorized to voluntarily refer their delinquent child support accounts to FTB for collection. In response to this legislation, FTB developed the Consolidated Debt Collection (CDC) System to handle 21,416 active cases. In 1995, with the passage of AB 923 (Speier, AB 923; Stats. 94, Ch 906), the program was expanded to include voluntary referral from all 58 counties.

In October 1997, the Governor signed legislation (Escutia, AB 1395; Stats. 97, Ch 614, Kuehl, AB 573; Stats. 97, Ch. 599, Lockyer, SB 247; Stats. 97, Ch. 601 and Villaraigosa, AB 702; Stats. 97, Ch. 697) impacting FTB's Child Support Collection Program. The bills impacted FTB by mandating enhanced collections, changing FTB's funding structure and making technical adjustments as to how California law deals with data exchange with financial institutions, in accordance with the Federal Welfare Reform Act, as well as mandating FTB to use the data to increase collections.

FTB's CDC system was modified to add additional functionality to meet other Child Support requirements such as the Financial Institution Data Match (FIDM) (AB 702;Chapter 697, Statutes 1997) and the Multi-State Financial Institution Data Match (MSFIDM). In addition, in response to legislation, the CDC system was modified to add a portion of the resultant workload from Vehicle Registration Collections (SB 452;Chapter 60, Statutes 1993), Industrial Health and Safety Collections (SB 1490;Chapter 1117, Statutes 1994 and SB 996;Chapter 33, Statutes 1995) and Court-Ordered Debt Collections (AB 3343;Chapter 1242, Statutes 1994) was added to the CDC system.

In October 1999, legislative requirements (AB 196;Chapter 478 and SB 542;Chapter 480) impacted the FTB's Child Support Collection Program and created the need to enhance the CDC system. In response to the legislation, FTB proposed developing a centralized automated system - the California Arrearage Management Project (CAMP) to replace the existing CDC system. FTB later concluded that the proposed CAMP solution addressing the 1999 legislative mandates was no longer viable and that the window of opportunity to modify current business processes had passed. Due to delays in securing the necessary funding for CAMP, the CDC System faced system capacity issues.

In March 2001, in an effort to minimize the risk of reaching full capacity of the CDC System, FTB submitted a FSR and a Finance Letter #2 for FY 2001/02 to the Department of Finance proposing the CSRP project, which would move the existing child support system functionality to a new platform with increased capacity. The Department of Finance approved both the FSR and the Finance Letter, and the CSRP project began on June 22, 2001.

Consistent with the approved FSR, FY 2002/03 BCP #10 was submitted and approved to reduce the CSRP budget by $1.55 million to the appropriate level. The resource need reflected a projected implementation date for CSRP of December 31, 2002.

This BCP proposes to revert the remaining CSRP project funding and to realign the funding sources for the ongoing resource need.

C. <u>STATE LEVEL CONSIDERATIONS</u>

The mission of FTB is to efficiently, effectively and fairly administer income tax and other programs entrusted to it and to collect revenues needed to serve the people of California. This budget change proposal is fully supportive of the FTB's mission, goals, and objectives as outlined in FTB's Strategic Plan. Collection of delinquent child support debt is an integral part of FTB's administration of collection services.

The implementation of the CSRP will allow FTB to continue to process child support collection cases without the risk of capacity issues or system failures.

D. JUSTIFICATION

The CSRP project will be completed and implemented on December 31, 2002. Completion of the project will ensure that the Child Support Collection Program will continue without disruptions caused by system or capacity problems. This BCP reverts the remaining project funding in accordance with the approved FSR.

E. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1
Reduce the project funding in accordance with the approved Child Support Replacement FSR #1730-155 approved in May 2001. This BCP proposes to reduce the project funding by $2.0 million General Fund and to increase the Federal Reimbursements by $0.9 million, for a net reduction of $1.1 million. These adjustments would result in an ongoing funding level of $14.8 million, comprised of $5.0 million General Fund and $9.8 million Federal Reimbursements.

F. TIMETABLE

CSRP projected implementation date is December 2002.

G. RECOMMENDATION

Recommend Alternative 1 to adjust project funding to ongoing levels.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2003/04
DF-46 (REV 03/00)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
Placeholder 1		1730	**Franchise Tax Board**

PROGRAM	ELEMENT	COMPONENT
45 Child Support Automation	00 Child Supp Automation	

TITLE OF PROPOSED CHANGE:

Calif Child Support Automation System (CCSAS)

SUMMARY OF PROPOSED CHANGE:

This BCP is being submitted as a "placeholder" for anticipated need of additional funding and position authority in FY 03/04 to begin the development and implementation phase of the statewide CCSAS Project. The amount of funding and position authority needed will not be determined until final negotiations are made with the Business Partner.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☐ ONE-TIME COST ☐ FULL-YEAR COSTS ☐ FACILITIES/CAPITAL COSTS ☐ FUTURE SAVINGS ☐ REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR	DATE	AGENCY SECRETARY:	DATE

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? ______

☒ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT ____________.

DATE PROJECT # FSR ☐ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

FRANCHISE TAX BOARD
Fiscal Year 2003/04

Budget Change Proposal - Placeholder	**Placeholder BCP No.: 1**
California Child Support Automation System (CCSAS)	**Date: August 26, 2002**

This Budget Change Proposal is being submitted as a "placeholder". The Franchise Tax Board is anticipating a need for additional funding and position authority in the 2003/04 fiscal year in order to begin the development and implementation phase of the California Child Support Automation System Project (CCSAS). The project anticipates these needs will also extend to subsequent fiscal years. The CCSAS Project is currently in contract negotiations with the qualified business partner and expects to conclude this process in October 2002. Resource needs will be available at the conclusion of the contract negotiations. The following are the key milestone dates in the current project schedule:

6/11/02 – 10/18/02*	Contract negotiations.
12/13/02*	Submit request for Federal funding.
2/28/03*	Contract award.

*These dates are subject to change if there are delays during contract negotiations.

The CCSAS Project is utilizing the Alternative Procurement Process in Business Partner (BP) selection. Under this process, BP's are not paid until specified and agreed-to deliverables are met. The CCSAS Project anticipates deliverables will be provided beginning the 2003/04 fiscal year. Additionally, the selected BP will identify staffing needs for the Project (FTB-CCSAS), Program (Department of Child Support Services), and County to participate and work with their staff in the development and implementation of their solution.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2003/04
DF-46 (REV 03/00)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
Placeholder 2		1730	**Franchise Tax Board**

PROGRAM	ELEMENT	COMPONENT
60 Court Collections	00 Court Collections	

TITLE OF PROPOSED CHANGE:

Court-ordered Debt Program Expansion

SUMMARY OF PROPOSED CHANGE:

This BCP is being submitted as a "placeholder" for anticipated need of additional funding and position authority in FY 03/04 to expand the Court-ordered Debt (COD) program. COD is a pilot program due to sunset on January 1, 2003. Upon the expected passage of pending legislation that will remove or delay the sunset provision, FTB anticipates that the COD program will grow as additional county clients are waiting approval to participate in the program.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[X] YES [ ] NO	Revenue & Tax Code Section 19283	[X] ONE-TIME COST [ ] FULL-YEAR COSTS [X] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [X] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY	DATE

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

[ ] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT _____________.

DATE PROJECT # FSR [ ] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

FRANCHISE TAX BOARD
Fiscal Year 2003/04

Budget Change Proposal - Placeholder **Placeholder BCP No.: 2**

Court-Ordered Debt Collection Program **Date: August 26, 2002**

This Budget Change Proposal is being submitted as a "placeholder." The Franchise Tax Board (FTB) is anticipating a need for additional funding and position authority in the 2003/04 fiscal year in order to continue and expand the current Court-Ordered Debt (COD) Collection program.

Pursuant to AB 3343 (Chapter 1242, Statues of 1994), the COD Collection program has the authority to collect delinquent court-imposed fines, penalties, forfeitures and restitution orders referred to FTB by local and state agencies. Since its inception, COD has generated over $79 million of state and county general and special funds for its participating clients. Currently, the COD collection program is funded at a reimbursement rate of 15% of program collections and has an appropriation of $3.4 million for FY 2002/03. There is no state general fund cost to FTB to administer this program.

The COD Collection program is currently a pilot program due to sunset January 1, 2003, absent a change in the law to remove the sunset provision. As a result of the tremendous success and benefits of the program, AB 2388 (extending the sunset to January 1, 2006) and SB 1660 (removing the sunset provision) were both introduced in this budget cycle. SB 1660 went to enrollment on August 22, 2002, but has not yet been enacted.

Currently the COD program services 23 of the 58 California counties. Based on our client's input and interest in expanding the program, and with the passage of either SB1660 or AB 2388, the COD Collection program will require increased funding and PYs in fiscal year 2003/04. This will allow FTB to maximize collection services for its existing clients and to expand services to new clients. Currently, seven new courts are waiting approval to enter the COD Collection program. We anticipate that the expansion will continue to occur over the next several years as additional clients request to be included in the program.

Implementation of the program expansion would be July 1, 2003.

STATE OF CALIFORNIA
CAPITAL OUTLAY
BUDGET CHANGE PROPOSAL (COBCP)
COVER PAGE (REV 11/99)

DEPARTMENT OF FINANCE
915 L Street
Sacramento, CA 95814
IMS Mail Code: A15

BUDGET YEAR 2003-04

ORG CODE: **1730** COBCP NO. Placeholder 3 PRIORITY: PROJECT ID: **90.01.100**
DEPARTMENT: **Franchise Tax Board**

PROJECT TITLE: **FTB Butterfield Campus Renovations**

TOTAL REQUEST (DOLLARS IN THOUSANDS): **TBD** MAJOR/MINOR: **Major**

PHASE(S) TO BE FUNDED: **P / W / C** PROJ CAT: **FIM** CCCI/EPI: **4019**

SUMMARY OF PROPOSAL:

This COBCP is being submitted as a placeholder. The Department of Finance requested the Franchise Tax Board (FTB) to submit a COBCP requesting a capital appropriation for the renovation of FTB's existing Butterfield facilities, in effect removing the renovation of Buildings 1 & 2 from the Butterfield State Office Building Project.

With the passage of Senate Bill 1589 (Chapter 328/1998) the State was authorized to use lease revenue funds for the acquisition of land, design and construction of the new State Office and Warehouse Facilities at Butterfield Way Project (Butterfield State Office Building Project). The project also includes statutory authority allowing the renovation of FTB's existing Butterfield facilities. The renovation is required for the programmatic consolidation of FTB's leased facilities presently located within the Sacramento Highway 50 Corridor. The use of lease-revenue bonds would introduce layered debt financing because the existing debt funding on Buildings 1 & 2 has not been amortized; layered debt financing is a problem for bond counsel. With this proposal, FTB is requesting a capital outlay appropriation for the aforementioned renovations that will sustain the physical suitability of FTB's existing Butterfield buildings for continued use.

HAS A BUDGET PACKAGE BEEN COMPLETED FOR THIS PROJECT? (E/U/N/?): **N**

REQUIRES LEGISLATION (Y/N): **N** IF YES, LIST CODE SECTIONS: ______________

REQUIRES PROVISIONAL LANGUAGE (Y/N) **N**

IMPACT ON SUPPORT BUDGET: ONE-TIME COSTS (Y/N): **Y** FUTURE COSTS (Y/N): **N**

FUTURE SAVINGS (Y/N): **N** REVENUE (Y/N): **N**

DOES THE PROPOSAL AFFECT ANOTHER DEPARTMENT (Y/N): **N** IF YES, ATTACH

COMMENTS OF AFFECTED DEPARTMENT SIGNED BY ITS DIRECTOR OR DESIGNEE.

SIGNATURE APPROVALS:

Pending Board Approval

PREPARED BY DATE REVIEWED BY DATE

DEPARTMENT DIRECTOR DATE AGENCY SECRETARY DATE

****

DOF ANALYST USE

DOF ISSUE #_____ PROGRAM CAT:___ PROJECT CAT:___ BUDG PACK STATUS:____
ADDED REVIEW: SUPPORT:____TIRU:____ FSCU:____ OSAE:___ CALSTARS: ____

STATE OF CALIFORNIA
CAPITAL OUTLAY
BUDGET CHANGE PROPOSAL (COBCP)
NARRATIVE PAGE (REV 11//99)

DEPARTMENT OF FINANCE
915 L Street
Sacramento, CA 95814
IMS Mail Code: A15

BUDGET YEAR 2003-04

ORG CODE: 1730 COBCP NO. Placeholder 3 PRIORITY: PROJECT ID: **90.01.100**

The legislation authorizing the Butterfield State Office Project includes funding for the renovation of FTB's existing Butterfield facilities. Due to potential conflicts with the final debt financing structure for the entire project, Department of Finance requested FTB to submit a COBCP requesting a capital appropriation separate from the project's bond funds for the renovation.

Following construction of the new building, the FTB will relocate approximately 508,000 square feet of leased facilities presently located within the Sacramento Highway 50 Corridor to the expanded Butterfield campus. A renovation of FTB's existing Buildings 1 & 2 is required in order to fully implement the programming and consolidation strategies expressed in FTB's 1995 Master Plan Update Report, which supported the authorizing legislation. The program consolidation objective and need for the renovation of Buildings 1 & 2 were reconfirmed in the 1998 FTB Master Plan Update.

Schematic level plans developed by the Butterfield State Office Building Project forecast the space requirements of the existing buildings following the relocation of staff to the new building and subsequent lease closures. Modernization of the buildings will facilitate the planned consolidation of the department's processing services, record storage functions and selected administrative workgroups. To achieve the stated goals, Building I must be renovated to provide a predominately open office environment while improvements to Building 2 entail the conversion of space for increased records storage capacity consistent with that building's original design.

Failure to upgrade the existing buildings would result in approximately 46,700 square feet of vacant unassignable space. The department's processing services functions would not be accommodated in a contiguous layout that is conducive to the efficient handling and storage of returns and incoming tax related mail. This would further prohibit the relocation of approximately 181,000 square feet of combined office space and record storage presently housed offsite in multiple private leased facilities. The continued leasing of space for these programs would obligate the department to net ongoing costs of $362,000 for FY 2004/05; $1,108,000 for FY 2005/06 and $1,854,000 for FY 2006/07 for rents, site security and communications. Given the uncertainty of the local rental market, these rates could increase considerably as leases expire and are renewed. The continued leasing of space conflicts with the provisions of Executive Order D-46-01 in which agencies have been directed to utilize state owned facilities when accommodating future space requirements.

The estimated renovation work will include the cost of painting, carpet replacement and repairs, and electrical system modifications as needed to accommodate program space requirements of the department. The renovation will also include ADA components to meet ADA sustainability requirements.